

[Sent by email on 28 September 2021]

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This response is prepared on behalf of Scottish Hydro Electric Transmission Plc (SSEN Transmission), part of the SSE Group, responsible for the electricity transmission network in the north of Scotland.

SSEN Transmission notes that the separation of the Electricity System Operator (ESO) from National Grid is necessary if Ofgem and BEIS seek to give the Future System Operator (FSO) additional responsibilities with regards to the introduction of competition in network solutions. The rules of competition cannot be designed until separation occurs as this can result in a conflict of interest, particularly given that National Grid Plc has an active Interconnector and Ventures Division.

However, we are also acutely aware of the urgent need to focus on delivering Net Zero by 2050, and 2045 in Scotland, and the key role energy infrastructure will continue to play in maintain security of supply, supporting jobs, and stimulating the economy as we recover from Covid-19. GB consumers and society more widely cannot afford the industry to be distracted from delivering Net Zero. Institutional reform must be proportionate and evidence-based, avoiding any disruption to these crucial objectives.

We have specific concerns with the current FSO proposals:

- the enhanced roles of the FSO currently being considered, specifically system planning and network development;
- the lack of clarity of the role and responsibilities of the FSO, and the impact on other industry participants including Ofgem, Transmission Owners (TOs), Distribution Network Operators (DNOs) and generators; and
- the incremental pre-legislative approach to implementing the FSO.

Any institutional change must follow an evidence-based approach, with necessary legislation, statutory licence and code changes in place that underpins new roles and responsibilities, ahead of any implementation.

To achieve a just transition to Net Zero, it is essential that priority should be placed on market stability, charging, and clarity over responsibilities at the transmission-distribution interface including how changes impact consumers, the environment and local communities.

We welcome continued engagement and discussion with BEIS and Ofgem to best support and deliver the right institutional framework that will facilitate Net Zero ambitions and keep the lights on as we recover from Covid-19.

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Executive Summary

The energy industry is undergoing significant and fast-paced change as society's demands and priorities become more keenly focused on climate change. Achieving Net Zero by 2050, and 2045 in Scotland, while maintaining security of supply and stimulating the economy as we recover from Covid-19, is a momentous challenge. It is also one that requires the right institutional framework where roles and responsibilities of all industry stakeholders are clear and well-understood. We agree with Ofgem and BEIS that the institutional framework must be grounded in the new challenges we see in the future.

However, institutional reform can be highly disruptive and we must not be distracted from the aforementioned challenges. We consider that any change must focus on key aspects of governance and ensure it:

- provides transparent and timely decision-making and frameworks to maintain Net Zero pathways;
- provides clear direction on the roles and responsibilities of each participant and avoid overlap (ie decision-making bodies) to keep pace with a just transition including decarbonisation goals, protecting and enhancing the natural environment and supporting local communities ; and,
- retains the high performance behaviour, benefits, and outcomes evident under the current framework.

It is essential in any assessment of whether change is required must consider the benefits of the current model and acknowledge the transition to Net Zero that is already well underway. Significant parts of the current institutional framework, and organisations therein, are already delivering well for our future challenges. TOs are already playing a crucial role in the achievement of GB's Net Zero targets, particularly in the North of Scotland which is a gateway to renewable energy. Between 2013 and 2020, the UK electricity sector's emissions have fallen by over 100 MtCO₂e. In the north of Scotland, we have invested over £3 billion in network infrastructure that has allowed renewable generation to more than double. The clean green electricity produced in the north of Scotland is playing an outsized role in the effort to decarbonise our nation¹.

Clarity of Roles and Responsibilities

We have significant concerns on the proposed enhanced roles for the new FSO to undertake. We seek clarity on roles and responsibilities to ensure the FSO's roles do not overlap with those of TOs (and Ofgem, BEIS, renewable developers etc). Specifically, we ask BEIS to define what is meant, in practice, by an "enhanced electricity system planning and network development" role for the FSO. This must set out clearly what these roles are vis-à-vis the role of the TOs.

It is the TOs who have the experience in network planning and development, it is the TOs that own the wider stakeholder relationships and it is the TO that is accountable to consumers,

¹ https://www.ssen-transmission.co.uk/media/5701/final-elas-sustainability-report-2020_21.pdf

customers, and wider stakeholders. Network planning cannot be undertaken in isolation from design, development, and delivery considerations. Collaborative national long-term system planning (ie NOA) considers national impacts, but importantly relies on detailed options presented by TOs based on ‘on the ground’ design, development (including environmental and community impacts), stakeholder engagement, and costing.

Whilst collaboration between the ESO and TO is required, it is the TOs who are undoubtedly best equipped and have the track record, experience, expertise and established processes to determine the future needs of their local networks. It is the TOs that own the wider stakeholder relationships and undertake end to end consideration of network planning, design, development, and delivery.

If the intent is to expand the TOs system planning role to a new FSO (noting this is not clear from the consultation) this will at best lead to duplications or parallel functions between the FSO and TOs, which will be expensive and inefficient for consumers at a time where there is already a significant skills shortage. At worst, it will lead to responsibility being given to an organisation that is not best placed to be accountable for delivery. TOs are accountable to consumers, customers and wider stakeholders, not the ESO. The TOs should therefore retain all responsibility for network planning and development.

We are currently working together across TOs and the ESO on the Offshore Transmission Network Review (OTNR) Holistic Network Development (HND)’s Central Design Group (CDG), which should be delivered in full by the ESO by January 2022. Any delay to this workstream will be detrimental to the 2030 targets. The workstream recognises that the ESO does not have experience in many of the practical aspects of detailed network planning and development, which sits firmly with the TOs.

Any regulatory framework must retain one sole decision maker for investments and one sole organisation for dispute resolution. Ofgem must retain these roles. Regarding decision making, as the regulator, Ofgem has clear accountabilities to consumers and legislative processes for challenge. Duplication, or introduction of two parties to undertake this role, is inefficient and can lead to lack of ownership. Furthermore, any form of dispute resolution between industry participants should lie with Ofgem, not an industry participant. Separation of powers is essential to ensure there are no conflicts of interests (what the FSO proposals is intended to avoid). As an industry participant regulated under Ofgem, it is essential the FSO is treated equally to other industry participants. For example, if the FSO in the future is responsible for competitive processes for onshore infrastructure, it too must be accountable for its actions, if for example, this process results in late delivery or consumer detriment.

A clear legislative approach to establishing the FSO

There are weaknesses associated with “learning by doing” and the importance of a clear purpose and upfront policy objectives cannot be underestimated. Regarding the ESO’s Pathfinder initiative, specifically the Stability Pathfinder, introducing competition via a “learning by doing” approach to address network issues has resulted in a delay of nearly 12 months. This is a direct result of the ambiguous design and implementation of these Pathfinder projects by the ESO. We are unable to address the major risks to the network (ie

stability) nor answer the concerns raised by customers because the ESO had not considered in advance the unintended yet foreseeable consequences likely to be caused by its own process.

It is essential Ofgem and BEIS clearly define the current problem and/or future challenges within the energy system, how an FSO will address these, why the introduction of an FSO is the optimal way forward, and what benefits it will provide end consumers, without making large sweeping generalisations. It's not clear how a new body and structure will address functional issues within the current ESO, nor is it clear what apparent problem it seeks to resolve. General sweeping statements that an FSO will result in "improved whole system decision making" is not specific, measurable nor time-bound.

We welcome clarity on timelines, and confirmation that statutory consultations will be undertaken with all members of industry to establish codes and licences ahead of any introduction of an FSO.

Impact Assessment

The Impact Assessment (IA) assumes that a new body will solve a wide array of current network issues in broad terms, but has not identified specifically what is hindering whole system solutions and Net Zero.

We disagree that a new FSO will provide the anticipated benefits of improved whole systems decision-making set out in paragraph 48. Removing perceived conflicts of interest will not introduce a step change in improving network planning and system operability. The current ESO relies on TO knowledge in identifying, assessing, and costing network solutions. Many of the improved whole system insight aspirations can be undertaken in the current framework, with the right codes, incentives, and licence obligations.

The IA grossly overstates benefits of the FSO's role and benefits in a competitive framework without evidencing claims. There is no evidence nor robust data that supports the claims in the IA that perception of an impartial FSO may increase participation in competition; enhanced powers will enable identification and realisation of opportunities for competition; and better decisions will be made on the competitive framework due to removal of perceived conflicts of interest.

There is no articulation of how an FSO could enable such significant cost savings. The claim that an independent FSO could provide 25-50% cost savings is wholly unsubstantiated and in fact, misleading for consumers and participants in the industry. We ask BEIS and Ofgem to provide comparable case studies where policy intervention has introduced proven and measurable cost savings of this nature.

We also seek more transparency and clarity on how Ofgem and BEIS have considered the RIIO-2 framework, and how it derived the cost saving figures in its IA. We think the IA could have also considered an option where the ESO is strengthened within the current framework to minimise institutional disruption, but also achieve policy goals. For example, whether additional mechanisms could be introduced, similar to the whole system licence conditions and Coordinated Adjustment Mechanism (CAM) re-opener.